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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 001994

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NEA FOR FRONT OFFICE AND IPA; NSC FOR SHAPIRO/KUMAR;  
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TAGS: [ECON](#) [EFIN](#) [EAID](#) [KWBG](#) [PGOV](#) [IS](#) [KU](#) [AE](#)

SUBJECT: PALESTINIAN AUTHORITY LEANS ON BANKS TO PAY  
SALARIES; OFFICIALS UPSET AT GOI DELAY ON REVENUE TRANSFER

REF: JERUSALEM 1952

Classified By: Consul General Daniel Rubinstein, for reasons 1.4(b),(d)

11. (C) Summary: The Palestinian Authority paid October salaries to its employees in the West Bank and Gaza on November 4, drawing from the monthly revenue transfer from Israel and increased lending from local banks, and in the absence of additional external budget support. PA officials are angered by the GOI's delay in transferring clearance revenues (which nearly resulted in the PA defaulting on the payments) and attribute the delay to the current political climate. PA Ministry of Finance contacts stressed that lack of transparency in billing from the Israel Electric Company (IEC) weakens their financial controls, and hinders the PA's ability to make progress on net lending with West Bank municipalities. End summary.

Back to the Banks to Pay Salaries  
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12. (C) The PA paid October salaries to its West Bank and Gaza employees on November 4, using clearance revenues transferred from the GOI and loans from commercial banks. According to Ministry of Finance Director General Yousef al-Zamer, the PA borrowed USD 10 million from the Egyptian Real Estate Bank, NIS 20 million from Al Quds bank, and NIS 80 million from the Bank of Jordan. The Ministry estimates the PA's debt to commercial banks is now approximately USD 700 million, up from around USD 450 million after the Saudi donation received in August.

13. (SBU) No new donor funds were received by the PA, according to DG Mazen Jadallah, beyond the usual monthly EC contribution of around USD 18 million. Jadallah noted that the PA is still hoping for USD 80 million from Kuwait and a contribution from the UAE, but said he has no indication either country is moving forward.

14. (SBU) Banks in Gaza report sufficient liquidity in NIS to pay salaries, but remain short of dollars and dinars. Note: The shortage is so acute that one bank employee told Treasury Attache that Gazans now put dollars and dinars in bank safe deposit boxes, rather than in their accounts, from which they do not believe they will be able to withdraw them. End note.

UNRWA successfully coordinated the entrance into Gaza, outside of the banking system, of USD 13.5 million and NIS 41 million in cash into Gaza for salaries and assistance programs on October 27 and November 3, respectively.

PA Angered by Delay in Revenue Transfer  
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15. (C) Hatem Yousef (an advisor to Palestinian PM Salam

Fayyad) told Econoff that he and GOI officials had agreed during the last week of October on the amount of clearance revenue (minus deductions) to be transferred to the PA. Yousef said he expected the transfer to take place, as usual, on the first or second of the month. When no funds appeared by Monday, November 2, Yousef said he started contacting GOI Ministry of Finance officials on an urgent basis. First assured that the required paperwork was just awaiting signature, Yousef said he was told on November 3 that the issue, in fact, had to go to PM Netanyahu and was "political" in nature. During the evening hours of November 3, PA officials -- including the Prime Minister -- contacted post to express concern that the GOI had not yet transferred the revenues to the PA. With salaries due to be paid on November 4, they noted, the PA was in risk of defaulting on payments when people started withdrawing their cash.

16. (C) On the morning of November 4, Yousef confirmed that NIS 247 million had been successfully transferred to the PA. Because of the delay, the funds would not arrive in the PA's accounts in time. However, the GOI provided a letter stating that the transfer had been initiated, which the PA, Yousef said, used to convince local banks to disburse salaries. Yousef claimed the delay politicized what has been a professional, technocratic process between the two sides. "This is one area where they are quick to claim credit for cooperation," he said, "why would they put us in such a tough position with the banks?"

Arguments Continue over Electricity Deductions  
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17. (SBU) The total transferred on November 4 includes NIS 354 million in clearance revenue collected on behalf of the PA in September, minus NIS 107 million in deductions, including NIS 55 million for electricity and NIS 18 million for judgments against the PA in U.S. courts.

18. (C) Yousef told Econoff he again raised the lack of transparency in electricity billing with his counterparts in the GOI. He said the PA requested a comprehensive report from the IEC, including the current month's bill and total debt figures. Yousef said there is a minimum one-month gap between the time the GOI deducts revenue and the time the IEC gets paid, during which the IEC charges the PA interest. The PA believes it is being double-billed for some electricity, where payments are being made direct to the IEC by municipalities and then subsequently deducted from clearance revenues. The lack of billing also prevents the PA from enforcing payment by municipalities as a means of reducing net lending.

Comment  
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19. (C) Whatever political signal the GOI seemingly wanted to send by delaying the revenue transfer, Palestinian officials understand it to mean the GOI is ready to use all available means to pressure the PA on the political front. That perception alone will complicate further USG efforts to promote bilateral GOI-PA dialogue on economic issues.

RUBINSTEIN